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SUBJECT: U/S LAVIN AND CITB SECRETARY WONG DISCUSS TRADE
ISSUES

¶1. (SBU) SUMMARY: Franklin L. Lavin, Under Secretary of Commerce for International Trade, met with Joseph Wong, Hong Kong Commerce, Industry, and Technology Secretary on December 8 to discuss the Doha Round, the Secure Freight Initiative, anti-dumping, intellectual property rights (IPR), aviation services, and the U.S.-China Strategic Economic Dialogue (SED). Wong stated that the Hong Kong government (HKG) has three trade priorities: the success of Doha, Hong Kong's continuing economic integration with the mainland, and ensuring Hong Kong companies benefit from the Closer Economic Partnership Agreement (CEPA) with the mainland. Lavin encouraged the HKG to join the Secure Freight Initiative, to open its aviation services market and to reconsider provisions in the new Copyright Amendment that have the potential to create dangerous loopholes in Hong Kong's IPR regime. Lavin forecast increased U.S.-Chinese trade friction in 2007, citing the slowdown of economic reform in China, the shift in power in the U.S. Congress and public concerns in the U.S. over the trade deficits. Wong acknowledged the trade deficit, but stated that U.S. export control measures contribute to the trade imbalance. END SUMMARY.

¶2. (SBU) Wong opened by citing Hong Kong's top three trade priorities. The first is to see the Doha Round succeed. The multi-lateral trading system must not breakdown and must remain able to resolve trade disputes, Wong stated. The second priority is to continue Hong Kong's economic integration with the mainland, while maintaining autonomous WTO and APEC status. Third, the HKG wants to ensure that Hong Kong companies continue to benefit from the Closer Economic Partnership Agreement (CEPA) between Hong Kong and the mainland by gaining preferential access to the mainland market. Wong explained that companies registered in Hong Kong from twenty-seven service sectors can take advantage of CEPA and that Hong Kong registration, not ownership, is the key to obtaining CEPA benefits. Wong expressed interest in the Strategic Economic Dialogue, noting that Hong Kong benefits from improved U.S.-China relations.

¶3. (SBU) Lavin stated that the United States remains committed to the Doha Development Round and thanked the HKG for its continued support. He also noted that Hong Kong has done a superb job with the CEPA; at least two U.S. companies in Hong Kong, Crown and UPS, have obtained increased access

to mainland China through CEPA.

¶4. (SBU) Lavin told Wong that Hong Kong's WTO negotiator in Geneva, a member of the "Friends of Anti-Dumping Negotiations Group," has expressed unhelpful views on anti-dumping regulations that could hurt the multi-lateral trading system. Lavin underscored that anti-dumping regulations give countries the ability to prevent abusive trade practices, engender more confidence in the multi-lateral trading system and promote even greater trade flows. Wong responded that Hong Kong is not against anti-dumping as an instrument, but wants to avoid abuses of anti-dumping measures. He acknowledged that the multi-lateral trading system needs anti-dumping regulations, but suggested that the rules need clarification. Lavin said the USG appreciates Wong's explanation, but the Hong Kong's negotiator has expressed much more radical views.

¶5. (SBU) Lavin then praised Hong Kong for developing and implementing an integrated container security system in its seaport. The United States recognizes that integrated container scanning systems must effectively scan containers while not burdening port operators nor restricting the free flow of trade. Lavin urged the HKG to join the U.S. Secure Freight Initiative (SFI). Wong responded that the HKG hopes to reach an agreement with the USG on HKG's participation in the SFI, but that the agreement should facilitate the flow of Hong Kong goods through U.S. ports.

¶6. (SBU) Moving to intellectual property rights, Lavin acknowledged the progress Hong Kong has made on the IP front. Noting U.S. stakeholder concerns regarding Hong Kong's proposed Copyright Amendment, Lavin questioned why the HKG

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appeared to want to take a step backward in allowing the use of devices that circumvent technological protection measures.

Wong replied that the CITB-proposed amendment does not permit selling of or dealing in copyrighted materials, but provides a defense that allows a circumventor to absolve liability if he can establish that the circumvention is done for the purpose of carrying out a non-infringing act. Lavin stated that this provision could be abused and proposed that Wong meet with U.S. IP stakeholders to discuss this and other IP concerns.

¶7. (SBU) Lavin then asked why Hong Kong had not yet fully opened its aviation services sector, particularly considering that HKG policies of opening its seaport to all vessels and its telecom sector to foreign operators have resulted in Hong Kong becoming a world leader in these two fields. Wong replied that CITB does not directly deal with aviation negotiations, which falls under the Economic Development and Labor Bureau's purview, and as such did not wish to comment. Lavin commented that aviation services do not exist in a vacuum, but have wide-ranging impact across the commercial spectrum, including job creation/retention, the movement of goods and services, and other issues that clearly involve CITB. Still, Wong deferred and did not offer any substantive comment on this issue.

¶8. (SBU) In response to Wong's questions regarding the U.S.-China Strategic Economic Dialogue (SED), Lavin stated that he anticipates some increased trade friction between the U.S. and China in 2007 due to the slowdown of the economic reform in China, the shift in the U.S. political landscape due to the mid-term election results, and public concerns in the United States over the trade deficit. He noted that the PRC has not yet responded to a number of pressing U.S. trade concerns, so the SED may provide an opportunity for the two sides to discuss the future of our economic/trade relationship and for the United States to convince the PRC to be more responsive. Wong stated that the PRC's 11th Five-year Plan emphasizes measures aimed at increasing consumer demand and greater markets for products, which may improve the current trade deficit. Additionally, he noted

that the United States appears fearful of relaxing overly restrictive export controls that limit the PRC's ability to import U.S. products. Lavin accepted that the PRC is focusing on improving consumer buying power; he stressed, however, that the possible long-term improvement in China's buying power does not mitigate the perception in the United States of an unfair trade relationship. Lavin cited two examples: the PRC's slow rate of approval for U.S. retailers to operate in China and the lack of foreign credit cards in China. Regarding export controls, Lavin responded that all countries utilize export controls and that the PRC's frequent citation of export controls -- which affect a minute percentage of traded goods -- as a key reason for the trade deficit indicates that the PRC is not willing to address trade problems seriously.

¶9. (U) U.S. Participants

Under Secretary Frank Lavin
Acting Consul General Marlene Sakaue
FCS Chief Stewart Ballard
Economic Officer Craig Reilly

¶10. (U) Hong Kong Participants

CITB Secretary Joseph Wong
Deputy Secretary for CITB Christopher Wong
Assistant Director General for Trade and Industry Joyce Tam

¶11. (U) During his visit to Hong Kong Lavin participated in the following press related activities:

-Off-the-record meetings with the following journalists:
Keith Bradsher, Bureau Chief, New York Times Hong Kong; Guy de Jonquies, Asia columnist, Financial Times, Hong Kong;

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Mary Kissel, Asian Editor, Asian Wall Street Journal.

-Anthony Yuen, Editor and Anchor of Hong Kong's Phoenix TV interviewed Lavin.

-U/S Lavin gave "on-the-record" remarks on the future of U.S.-China trade relations to a group of business people at a luncheon hosted by the American Chamber of Commerce in Hong Kong. The event was well attended with approximately 30 business people and over 15 print and TV journalists.

-U/S Lavin completed his day of press meetings with a live appearance on Bloomberg TV's "Asia Business Tonight," interviewed by Susan Li.

¶12. This report was cleared by U/S Lavin's staff.

Sakaue